

Washington, D.C. - Reps. Ed Royce (CA-40) and Melissa Bean (IL-08), coauthors of the National Insurance Act, pointed to the Federal Reserve's unprecedented bailout of insurance giant AIG as a startling indication of the need to establish an optional federal charter for insurance.

"This unprecedented move by the Fed highlights the dangers of letting a 19th-century system govern a 21st-century marketplace," Bean said. "Our largest insurers are too complex, too interconnected worldwide, to allow the limited resources of state regulators to serve as the only option for oversight."

"Congress needs to address this matter before the Federal Reserve is forced to step in again. The insurance marketplace requires a world class regulator with the authority to adequately oversee these firms. At the end of 2007 AIG had assets over one trillion dollars, larger than the GDP of 47 states. Clearly the status quo is no longer an option," said Royce.

The announced bailout by the federal government of a non-federally regulated insurance company should concern all American taxpayers. Nearly 140 years ago states were given sole responsibility for regulating the business of insurance. This antiquated model has been costing insurance consumers and providers tens of billions of dollars annually and now all taxpayers' dollars are at risk.

In their Blueprint for regulatory reform, the Treasury Department notes the potential systemic gaps in oversight at the state level as a reason to establish an optional federal charter (OFC) for insurance. While individual AIG policy holders were likely not in danger, our financial markets will question the ability of insurance regulators to protect against struggling companies until a world class regulatory alternative is established that can focus on the impact these institutions have on capital markets worldwide.

"An optional federal charter would address many of the concerns expressed by the Treasury Department and others concerned with the well being of our capital markets. It would also establish a world class regulator within the federal government with the authority necessary to oversee this global sector. And it would ensure these institutions operate in a safe and sound manner and provide a nationwide guaranty fund to act as a backstop against potential failures," said Royce.

"Our competitiveness in a global market depends on a modern regulatory structure that can handle the complexity of today's insurance market. An optional federal charter will provide a safer, more cost-effective regulatory environment for our economy and for our consumers," Bean said.